

REMARKS

In this response to the Office Action mailed July 14, 2004, Applicants have amended claims 8 and 38 to clarify inherent matters. Claims 8-10, 37, 38, and 40 are pending, and the Examiner has withdrawn claims 15-17, 36, 39, 41, and 42.

In the Office Action, the Examiner rejected claims 8-10, 37, 38, and 40 under 35 U.S.C. § 101 as directed to non-statutory subject matter, and rejected claims 8-10, 37, 38, and 40 under 35 U.S.C. § 103(a) as unpatentable over U.S. Patent No. 5,996,700 to Gould et al ("*Gould*"). For the reasons that follow, Applicants traverse these rejections.

35 U.S.C. § 101 Rejection of Claims 8-10, 37, 38, and 40

In the Office Action, the Examiner rejected claims 8-10, 37, 38, and 40 under 35 U.S.C. § 101 as directed to non-statutory subject matter because they are not tied to any technological art. The Examiner alleged that these claims "are directed to non-statutory subject matter because they lack any recitation of technology in the body of the claims" (emphasis in original), and cited *Ex Parte Bowman* for support. Applicants disagree because, as *Ex Parte Bowman* is a non-precedential decision, there is no basis for such a position.

Nevertheless, to advance prosecution, Applicants have amended independent claims 8 and 38 to recite that certain operations are performed using at least one data processing system, which moots the rejection of claims 8 and 38 under 35 U.S.C. § 101, as well as the rejection of claims 9, 10, 37, and 40 which depend from claim 8.

35 U.S.C. § 103(a) Rejection of Claims 8-10, 37, 38, and 40

In the Office Action, the Examiner rejected claims 8-10, 37, 38, and 40 under 35 U.S.C. § 103(a) as unpatentable over *Gould*. To establish a *prima facie* case of obviousness under 35 U.S.C. § 103, the Examiner must demonstrate that (1) *Gould*

discloses or suggests each and every element recited in the claims; (2) there is a reasonable probability of success of any modification of the teachings of *Gould*, and (3) there exists some suggestion or motivation, either in the teachings of *Gould* or in the knowledge generally available to one of ordinary skill in the art, to make such a modification in a manner resulting in the claimed invention. See M.P.E.P. § 2143 (7th ed. 1998). Furthermore, each of these requirements must be found in the prior art – not based on Applicants' own disclosure. See *id.*

Gould fails to disclose or suggest each and every element recited in the claims. For example, claim 8 recites, among other things, “a guarantee certificate, which is a financial instrument representing an obligation of a party to make a payment triggered by certain default-related events associated with real estate loans,” “identifying and segregating cash flows paid to satisfy triggered payment obligations for the instruments in the reference pool, using at least one data processing system,” and “issuing a guarantee certificate to entitle a holder of the certificate to receive at least one payment from the identified and segregated cash flows.” *Gould* does not teach or suggest at least these elements.

Instead, *Gould* teaches a system for splitting up the responsibility for guaranteeing against mortgage pool credit losses between the mortgage originator (e.g., a bank) and the mortgage funding institution (e.g., a Federal Home Loan bank). (Abstract, col. 2, lines 21-30; col. 3, lines 29-54). In the *Gould* system, a mortgage originator and a funding institution enter into a contract, a Master Commitment Agreement, that assigns responsibility between the mortgage originator and the funding institution for different portions of the credit losses for a pool of mortgages. (Col 2, lines

36-40; col. 3, line 39 - col. 4, line 24; col. 5, lines 46-50). The owner of the mortgage pool receives payments from either the originator or the funding institution to replace credit losses he would otherwise experience if the mortgage pool were not guaranteed according to the Master Commitment Agreement. For example, the owner of the mortgage pool may receive payments compensating for the first five percent of credit losses in the mortgage pool from a "spread account" set up by the funding institution, receive payments compensating for any credit losses over five percent and up to 10 percent from the mortgage originator, and receive payments compensating for any losses over 10 percent from the funding institution. (Id.) Thus, the *Gould* system simply divides responsibility for guaranteeing the owner of a mortgage pool against various levels of credit losses between the mortgage originator and the mortgage funding institution, instead of paying a conventional guarantor, such as Freddie Mac or Fannie Mae, to guarantee against all credit losses for the pool. (Col. 1, lines 41-53).

Gould does not teach or suggest "issuing a guarantee certificate to entitle a holder of the certificate to receive at least one payment from the identified and segregated cash flows," as recited in claim 8, because *Gould's* credit risk guarantee payments are made only to the owner of the mortgage pool, who does not hold or need a guarantee certificate. Conventional insurance or guarantee payments to the mortgage pool owner for credit losses, as taught by *Gould*, does not disclose or suggest that a holder of a guarantee certificate, which could be an entity other than the owner of the mortgage pool, is entitled to receive at least one payment from the cash flows triggered by certain default-related events, as recited in claim 8. *Gould* does not disclose or suggest identifying and segregating cash flows paid to satisfy triggered

payment obligations for the instruments in the reference pool, as recited in claim 8, because *Gould's* guarantee payments go only to the mortgage pool owner. Thus, there is no need to identify the guarantee payment cash flow and segregate it from other cash flows because it can only go to one place--the owner of the mortgage. In sum, *Gould* contains no teachings or suggestions related to redirecting a guarantee payment to a holder of the guarantee certificate.

Moreover, as the application explains, conventional credit loss insurance or guarantee arrangements such as *Gould* describes are exactly the type of arrangement that the present invention improves:

The existence of insurance for a mortgage loan, or of a guarantee for a mortgage-backed security, is generally established at the beginning of the life of the loan or security in question. A contract between the insurer/guarantor and the investor or trustee sets the terms of the arrangement. A feature of this contract is that the payment obligation of the insurer or guarantor always runs to the owner of the insured or guaranteed asset so that the asset and the insurance cannot be decoupled, even if the value of the arrangement to the owner changes. This feature makes the arrangement illiquid and potentially less valuable.

(Appl. page 3).

With respect to claim 9, which recites creating a trust for holding the pooled instruments and initiating payment through the trust of some portion of the identified and segregated cash flows to the holder of the certificate, Applicants traverse the Examiner's rejection and disagree with the Examiner's interpretation of *Gould's* spread account and Master Servicer as including a trust. The spread account is money set aside by the funding institution to fund initial credit losses for a mortgage pool. (Col. 3, lines 57-66). The Master Servicer is an institution which contracts with the funding institution to provide accounting and administrative services for mortgages. (Col. 4,

lines 27-29). Neither of these is a trust. Neither of these holds the pooled instruments or suggests holding the pooled instruments. *Gould's* system does not suggest or need a trust because *Gould's* guarantee payments flow directly to the mortgage pool owner, not to an unrelated holder of a guarantee certificate.

With respect to claims 10, and 37, which recite that the guarantee certificate is tradable and that the guarantee certificate is conveyable to an entity that holds no interest in the instruments, respectively, Applicants traverse the Examiner's Official Notice assertion that these features are old and well known in the art with respect to a guarantee certificate. As the application notes, it was not common knowledge to decouple default-related insurance or guarantee cash flows from the underlying assets so that the cash flows could be directed to a separate certificate that could be conveyed or traded: "a feature of [conventional insurance and guarantee contracts] is that the payment obligation of the insurer or guarantor always runs to the owner of the insured or guaranteed asset so that the asset and the insurance cannot be decoupled, even if the value of the arrangement to the owner changes. This feature makes the arrangement illiquid and potentially less valuable." (Appl. pg. 3). The application also notes that that with respect to one exemplary embodiment of the invention: "A unique feature of Guarantee Certificates is that they are decoupled from, and therefore, in one preferred embodiment, may be bought, sold, and conveyed independently of the Reference Loans and/or mortgage-backed securities representing an interest in the Reference Loans that are the source of the payment-triggering events." (Appl. pg. 7). Thus, tradable or conveyable guarantee certificates were not common knowledge in the

art. Accordingly, Applicants request that the Examiner withdraw the rejection of claims 10, and 37 or provide authority for the Official Notice. (See MPEP § 2144.03).

For at least the reasons stated above, Applicants submit that *Gould* fails to disclose or suggest all the elements recited in independent claim 8. Accordingly, Applicants submit that independent claim 8 is allowable over *Gould*. For at least the same reasons, Applicants submit that independent claim 38, which recites features similar to those recited in claim 8, is also allowable over *Gould*. Applicants further submit that claims 9, 10, 37, and 40, which depend directly from claim 8, are allowable because they depend from an allowable claim, as well as being allowable for the additional, independent reasons given above. Accordingly, Applicants respectfully request that the Examiner withdraw the 35 U.S.C. § 103 rejection of claims 8-10, 37, 38, and 40.

In view of the foregoing amendments and remarks, Applicants respectfully request withdrawal of the pending rejections and the timely allowance of the pending claims.

Please grant any extensions of time required to enter this response and charge any additional required fees to our deposit account 06-0916.

Respectfully submitted,

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